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SIPDIS

DEPARTMENT FOR SA, SA/INS, INR/NESA; NSC FOR E. MILLARD

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TAGS: PGOV PREL PINR ECON CE NO

SUBJECT: Political update: Norwegian Envoy's visit; Provincial elections seem set for July; New ministers

Refs: Colombo 888, and previous

(U) Classified by James F. Entwistle, Deputy Chief of Mission. Reasons 1.5 (b,d).

¶1. (C) This update on Sri Lanka's political situation reviews the following recent developments:

-- In latest visit, Norwegian Envoy characterizes meetings with GSL and Tigers as "fruitful."

-- Several new ministerial appointments announced.

-- Provincial Council elections look set to take place in July.

-- During visit by Mission team, GSL under pressure to deliver the economic goods in the deep south.

-- Proposed rate hikes in basic services may spell trouble for UPFA government.

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Norwegian Special Envoy's visit
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¶2. (SBU) In the latest bid to move the peace track forward, Norwegian Special Envoy Erik Solheim arrived in Sri Lanka on May 24. On May 26, he met with Liberation Tigers of Tamil Eelam (LTTE) political chief S.P. Thamilchelvam in the northern Tiger-controlled town of Kilinochchi. In a press release issued by the Tigers late May 26, Thamilchelvam was quoted as informing Solheim that the LTTE's Interim Self Governing Authority (ISGA) proposal for administering the north/east should be the key initial focus of possible peace talks and not ways to get to a possible final settlement. (The LTTE's ISGA proposal was made late last year. The group withdrew from peace talks with the GSL in April 2003.) Solheim also reportedly met late May 27 with President Chandrika Kumaratunga and key advisers, including Foreign Minister Kadirgamar and Peace Secretariat Chief Jayantha Dhanapala.

¶3. (C) COMMENT: The LTTE statement underscoring the importance of discussing its ISGA proposal first is the group's reaction to the GSL's idea that other "core issues" be discussed in parallel. The LTTE has long made known that it wants the ISGA proposal to be a key topic of possible talks. The proposal is very controversial in the south, however, and the LTTE's apparent aim that it be made the key basis for talks is potentially problematic. In the meantime, the GSL's idea to discuss "core issues" in parallel was a negotiating tactic that could annoy the Tigers. Despite all the jockeying, Solheim has publicly characterized his visit as "fruitful." The Ambassador will be meeting with Solheim late May 28. END COMMENT.

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New Ministerial Appointments
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¶4. (SBU) On May 26, new ministers and deputy ministers were sworn in by President Kumaratunga. Ratnasiri Wickremanayake, a senior Sri Lanka Freedom Party (SLFP) MP who served as prime minister from 2000-2001 in the then-People's Alliance (PA) government, was sworn in as Minister of Public Security and Law and Order, Minister for Buddha Sasana (Affairs), and also as Deputy Minister for Defense. D.E.W Gunasekera, a senior MP and organizer of Sri Lanka's small Communist Party, was appointed as Minister of Constitutional Reforms. Professor V. Warnapala, a national list SLFP, was named Deputy Minister of Foreign Affairs.

¶5. (C) COMMENT: While the appointment of additional ministers by Kumaratunga was not unexpected, most observers had expected her to retain the Public Security and Constitutional Reform portfolios. Wickremanayake's appointment as deputy defense minister is important, as he will serve as day-to-day head of this key ministry.

(Kumaratunga retains the defense ministry portfolio.) Warnapala is a former Sri Lankan foreign service officer with wide-ranging experience in international affairs.
END COMMENT.

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Provincial Council Elections seem set for July
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16. (SBU) Sri Lanka's six remaining provincial council elections look set to take place in July. Deputy Elections Commissioner Ananda Senanayake told Pol FSN on May 27 that the elections would take place either July 3 or 10, but that President Kumaratunga had not yet set a firm date. The six councils in which elections will take place are those in Central, Uva, Western, Sabaragamuwa, North Central and Southern Provinces. These provincial council elections follow the United People's Freedom Alliance's (UPFA) decisive victory in the Wayamba ("Northwest") provincial council election held on April 24, in which it won 31 of the 52 seats on the ballot (see Reftels). In a related development, Media Minister Reginald Cooray resigned his Cabinet post on May 27 to run for the position of Chief Minister of the Western Province. Deputy Transport Minister M. Herath also resigned his position and will run for Chief Minister of the Sabaragamuwa Province. As was done during the April parliamentary elections, the Elections Commissioner recently prohibited campaign posters and cut-outs being put up during the election campaign, and allocated nearly Rs. 9 million (approx. USD 90,000) for their removal.

17. (C) COMMENT: Although provincial councils do not have much authority nor access to finances, the results of the elections could spell which way the political winds are blowing. It is early, but -- at this point -- the President's United People's Freedom Alliance (UPFA) is widely expected to win most of the provincial council seats up for grabs. (The UPFA is the technical term for the grouping between the "SLFP" and the Marxist Janatha Vimukthi Peramuna, "JVP.") The opposition United National Party (UNP) is expected to pick up a fair amount of seats. If the UNP does very poorly, however, it could further undermine UNP leader Ranil Wickremesinghe's leadership of the party. He has already faced unprecedented internal party criticism due to the UNP's defeat in the April parliamentary election (see Reftels). END COMMENT.

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GSL under pressure to deliver in Deep South
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18. (C) Polchief and Pol FSN visited the southern city of Galle, May 24-25. During the visit, the team met with a wide variety of political, civil society, and Buddhist clergy interlocutors. Among all interlocutors, there was widespread satisfaction that the government was moving forward with the peace process. Jayantha Jayaweera, a former UNP MP, however, was critical of the GSL, stating that it had "lied" during the electoral campaign by claiming that the then-UNP government was "giving in" too much to the LTTE only to follow the same policies when in power. A number of interlocutors were worried that the GSL would have a hard time meeting the commitments it had made on economic matters during the campaign. Ven. Baddegama Samitha, a UPFA MP and a Buddhist monk, for example, admitted that the UPFA "had probably made too many promises regarding jobs and that there would be a drop in prices." Samitha thought the UPFA would eventually exceed expectations, but he thought it would take time.

19. (C) COMMENT: Southern Sri Lanka, including Galle, has long been a leftist bastion and the UPFA still appears quite strong there. That said, there is some concern developing that the new government is not delivering on its promises quickly enough. This could hurt the GSL's political standing down the line. If the government gets into some trouble, it is not clear whether the UNP will necessarily benefit. In fact, the JVP may be the main beneficiary. Though the party is technically part of the UPFA, the JVP has maintained its own organization and is seemingly disassociating itself ever so slightly from the SLFP. In doing this, the JVP seems to be playing a smart game and it appears poised to pick up more support in the future. END COMMENT.

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Rate hikes in basic services may mean trouble for UPFA
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10. (C) Several recent proposed rate hikes in basic services may spell trouble down the road for the UPFA government. Due to low hydroelectric production, the Ceylon Electrical Board has indicated that it may raise rates soon. Additionally, Prima Ceylon Limited, the

sole producer of flour in Sri Lanka, announced on May 26 that it could hike its prices for flour by twenty percent per kilogram if the GSL fails to pay subsidy dues that Prima believes are in arrears. On May 27, the GSL issued a gazette notification that declared flour an essential commodity and established a set price for flour. The GSL also announced that it would allow competition for flour in the market. Given Prima's monopoly of flour production, this essentially invites flour imports in the short-term; however, given the GSL's duty structures and the regional price of flour, it is not clear if there would be any takers. Rate increases have also been mooted in other basic services lately, namely bus fares and petroleum prices. (We understand the GSL is exploring ways to keep petroleum prices down, including via a recent request to the GoI for a line of credit to subsidize the Indian Oil Company's subsidiary in Sri Lanka.)

¶11. (C) COMMENT: It is widely believed on the ground that one of the main reasons leading to the UNP's defeat in the April elections was that the impact of promised economic reforms had not yet been felt by the average Sri Lankan. During the campaign, the UPFA took full advantage of this perception that the UNP had failed to deliver the goods (although macroeconomic indices indicated that the country was doing relatively well). When coupled with conflicting GSL statements on privatization (see Reftels) and uncertainty regarding government proposals to hire thousands of unemployed graduates, however, the UPFA risks looking like it cannot deliver on its economic promises early in its tenure. As noted above, contacts in Galle are already reporting that the GSL is under pressure to deliver the economic goods quickly. END COMMENT.

¶14. (U) Minimize considered.

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